

- BC's inflation rate unchanged at 1.7% in July
- Exports flat in June despite a boost from energy sales
- Visitor entries pick up as Asians begin to return to Canada

Prices

• British Columbia's inflation rate remained moderate in July, with the overall price level increasing 1.7% over the same month last year. Along with the rest of the country, BC residents saw the inflation rate climb during the fall and winter months, largely because of soaring energy prices. BC's year-over-year inflation rate rose to more than three percent last fall, and remained at that level until the spring.

Energy prices are still forty percent higher than they were five years ago, but the rate of increase has been slowing. In July, the cost of energy was up 2.8% from July 2002. Piped gas (+16.0%) and fuel oil (+13.3%) prices were well above 2002 levels, but prices at the pump were only marginally (+1.6%) higher. Excluding energy, the province's inflation rate would have been 1.6% in July.

Apart from energy, upward pressure on the price level is coming from rising food costs (+2.5%), particularly for beverages, dairy and bakery products, and fruit. At the same time, the cost of alcohol and tobacco (+5.0%) continues to show the effect of a tobacco tax increase. A booming housing market helped push shelter costs up (+1.7%), and clothing and footwear (+0.6%) prices advanced for the first time in a year.

Victoria's inflation rate was 1.7% in July, while residents of Vancouver saw prices climb a more modest 1.4% during the twelve month period ending in July.

Source: Statistics Canada

• Canada's inflation rate was also unchanged (at 1.9%) in July. Nationally, energy prices (+6.7%) rose more than in BC, largely because the cost of piped gas skyrocketed (+55.8%). Canadians paid 0.1% less at the pump than they had a

year earlier. Among the provinces, inflation rates ranged from a low of 0.9% in Manitoba to 4.4% in Alberta, where consumers have seen the price of natural gas more than double during the last year.

Source: Statistics Canada

• In July, the price of unleaded gas at self-serve stations averaged 73.4 cents per litre in Vancouver and 79.9 cents in Victoria, where residents faced the highest gas prices in the southern half of the country. Yellowknife (89.9 cents) and Whitehorse (84.8 cents) are the only cities included in the survey where residents paid more to fill up their gas tanks. Gas prices in most Canadian cities have been moderating since they reached an all-time high in March, when the average price was 90.0 cents a litre in Victoria and 87.7 cents in Vancouver.

Source: Statistics Canada

The Economy

• Exports of BC products were flat (+0.1%, seasonally adjusted) in June. Energy products (+7.1%) continued to boost the overall total, but exports of forest products fell back 0.8%, and other commodity exports were also weak. Overall, US-bound exports rose 2.8% as BC sent more energy (+8.5%) and forest (+3.9%) products south of the border. However, shipments to overseas destinations were off 6.5%.

Source: BC Stats

• Sales by retailers in the province improved slightly (+0.2%, seasonally adjusted) in June, regaining some of the ground lost in the previous month. Cash registers across the country rang in 0.3% more sales in June.

Source: Statistics Canada

• Retail sales in BC slumped in the second quarter, falling 0.8% (seasonally adjusted). Weakness in the automotive sector was responsible for much of the decline. Lower gas

Did you know...

The Canadian cattle industry is a \$7.5 billion dollar industry, with sales averaging \$11 million a day.

prices translated into lower sales at gas stations, while retailers of motor vehicles and RVs continued to be buffeted by flagging sales (there were 6.8% fewer new vehicles driven off car lots in BC in the second quarter). Men's clothing and household furnishing stores did not fare well, either. However, retailers of women's clothing, other apparel and footwear made solid gains. Canadian sales were off 0.2% as consumers in Ontario (-1.0%) and three of the four western provinces kept the lid on their spending, especially on big-ticket items.

Source: Statistics Canada & BC Stats

- Sales by wholesalers in the province remained depressed in June, falling (-1.2%) for the fifth month in a row. This has not been a good year for the wholesale industry in Canada, where sales have been weak since February. Canadian sales were unchanged in June.

Source: Statistics Canada

- Wholesale sales in the province plunged 5.0% (seasonally adjusted) in the second quarter, largely due to weakness in the automotive sector. While BC wholesalers were hardest hit, sales contracted in six provinces during the second quarter, and were down 5.9% at the national level. Automotive products also played a big role in the national decline. *Source: Statistics Canada*

- Production at BC sawmills during the first five months of the year was 6.7% higher than in the same period last year. Coastal sawmills increased their output by nearly a quarter (+24.3%), while shipments were up 14.9%. Mills in the interior, particularly in the northern regions of the province, were not as busy. Production rose a modest 2.6%, while shipments fell 1.0% in the first five months of the year. About three-quarters of BC's lumber production comes from the Interior, where forest fires have already destroyed one mill. *Source: Statistics Canada*

Agriculture

- The number of cattle on Canadian farms reached an all-time high in July, as a ban on cattle exports following confirmation of single case of mad cow disease closed down markets for Canadian beef. The national herd stood at 15.7 million, with more than a third (6.1 mil-

lion) in Alberta. Saskatchewan (3.2 million) is Canada's second-biggest beef-producing province. Ontario (2.2 million), Manitoba (1.6 million) and Quebec (1.4 million) also have substantial herds. BC's exposure to the mad cow crisis is relatively limited, as ranching is not as big an industry here. Still, the number of cattle on BC farms and ranches rose from 837,000 in July 2002 to 900,000 at the beginning of last month.

Source: Statistics Canada

The Environment

- Canadian businesses spent \$5.4 billion on environmental production in 2000. Capital investment on pollution prevention, abatement, and control rose to \$2.2 billion, with much of the increase coming from the oil and gas extraction and transportation equipment industries. BC businesses accounted for a relatively small share (\$582 million) of total spending. Businesses in Ontario (\$1.7 billion), Alberta (\$1.1 billion) and Quebec (\$1.1 billion) invested substantially more.

Source: SC Catalogue 16F0006XIE

Tourism

- Restaurant, caterer and tavern receipts in the province continued to recede in June, falling 0.5% (seasonally adjusted). June's decline was the fifth in the last six months. Food service receipts were off 0.6%, but consumers spent more (+1.0%) at drinking places. Canadian receipts were flat (+0.1%).

Source: Statistics Canada & BC Stats

- Visitor entries to the province picked up for the first time this year, rising 2.8% (seasonally adjusted) in June as entries from both the US (+2.2%) and overseas (+6.2%) increased. Asian entries, which had tumbled in the wake of the SARS scare this spring, bounced back (+19.1%), advancing for the first time since last October.

Both overnight (+2.4%) and same-day (+1.8%) visits from the US increased. The number of Canadians returning home from the US via BC rose (+4.1%) for the second month in a row, signalling an end to a five-month long downturn. A more favourable exchange rate may be encouraging travel by Canadians to the US.

Source: Statistics Canada

*Infoline Issue: 03-34
August 22, 2003*

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Originally published in *Exports*, Issue 03-05. Annual subscription \$60 + GST

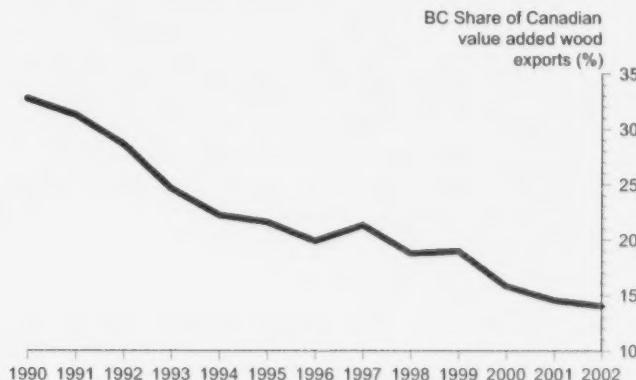
Value Added Wood Production in BC Lagging Rest of Canada

There is no universally accepted definition of value added wood products, but the term is usually applied to products made from lumber such as mouldings, siding, engineered wood and completed articles constructed primarily from wood. Engineered wood products include glued laminated timber (or glulam) and laminated veneer lumber. Articles made from wood could include doors, windows, prefabricated houses and furniture. The definition of value added wood used here is constructed by BC Stats and is consistent with the data published in the tables of the Exports release (as "selected value added wood products"). Included are most wood products that might be considered value added. Excluded from the definition are shakes and shingles, and panel products such as plywood, oriented strand board and medium density fibreboard.

Although BC origin exports of value added wood products have increased significantly in the last decade, compared to the rest of the country, BC is falling behind. This is reflected in the province's share of total Canadian value added wood exports, which has been halved over the last ten years. In 1990, BC was the source of almost 33% of all Canadian exports of value added wood, ranking first in the country, but by 2002, this proportion dropped to 14% and BC slipped to third behind Ontario (35%) and Quebec (34%) as an exporter of value added wood products.

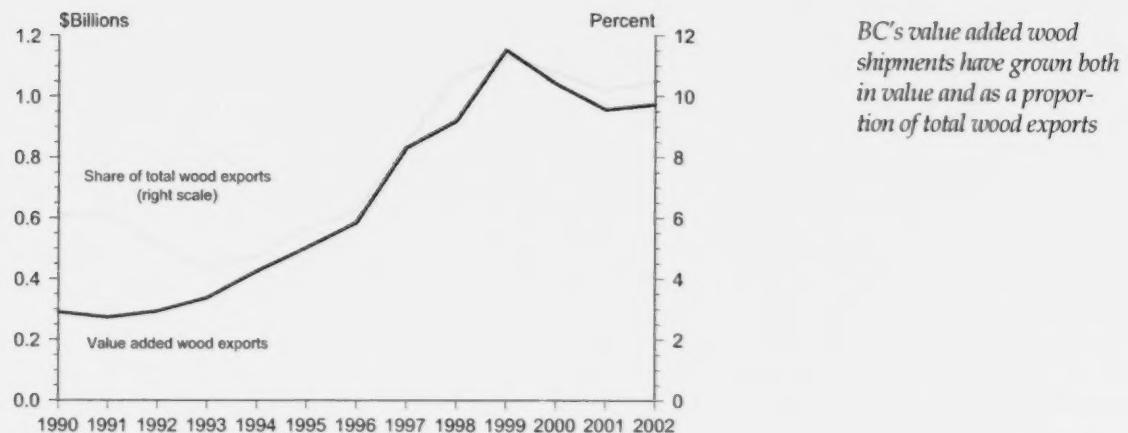
BC's growth in value added wood exports has been strong, but not nearly as strong as in the rest of the country

BC's share of Canada's value added wood exports has been in a steady state of decline over the last decade



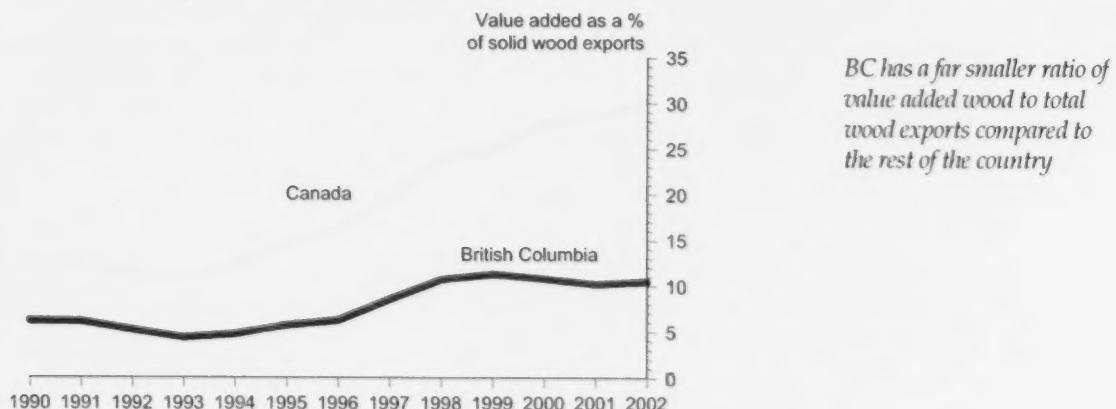
BC's share of Canada's total value added wood exports has fallen from 33% in 1990 to 14% in 2002

The drop in share is not due to falling shipments of value added wood from British Columbia; rather, the value of these exports more than tripled from 1990 to 2002. Not only did value added wood exports increase dramatically in that period, but so too did their share of total wood exports. In BC, this share jumped from 6.2% in 1990 to 10.5% in 2002.

BC origin value added wood exports

While the share of BC wood exports that is comprised of value added wood has increased markedly in the last decade, it is still quite small relative to other provinces. In fact, with the exception of Newfoundland and Labrador, BC had the smallest ratio of value added wood to total wood exports of any province in the country in 2002. By comparison, almost three-quarters of all wood exports from Manitoba (74%), over half of Ontario's wood shipments (52%) and 44% of Quebec's exported wood products were value added. The Canadian average was about 30%.

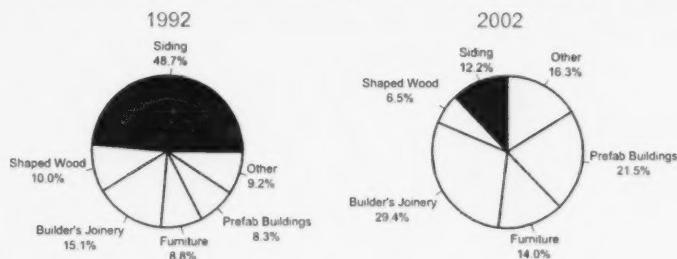
British Columbia lags well behind the rest of the country in terms of the proportion of wood exports that are value added



BC has a far smaller ratio of value added wood to total wood exports compared to the rest of the country

Over the last decade, the types of value added wood products shipped from British Columbia have changed substantially. In 1992, almost half of all value added wood exported was in the form of siding. By 2002, siding represented only 12% of value added wood exports. Most of the siding produced in BC is of the softwood variety, particularly western red cedar. Limited supply and competition from similar products made of cement, vinyl and metal has kept this industry from expanding. While the siding industry has remained fairly static, production of other value added wood products has increased significantly, resulting in a reduced share for siding. In addition, in the last couple of years, the siding industry has been severely affected by the softwood lumber dispute because softwood siding exported to the United States is subject to duties. Western cedar is a high-priced item and therefore pays a high premium when the 27% duty is applied. This, combined with competition from non-wood products, has resulted in a significant drop in BC siding exports.

The distribution of British Columbia value added wood exports changed dramatically between 1992 and 2002



Meanwhile, exports of builder's joinery and carpentry of wood have experienced substantial growth. These are products like doors, windows, panels and other structural components of buildings. These products represented 15% of value added wood exports in 1992, but grew to a peak of 48% in 1999 before slipping to 29% in 2002. At the peak in 1999, exports of builder's joinery and carpentry of wood were valued at \$549 million, up from \$44 million in 1992. However, since that time, the value of exports of these goods has dropped to \$286 million. Part of the reason for this may be increased competition from other provinces, particularly Quebec and Ontario. In 1992, Quebec exported only \$15 million worth of these goods and Ontario shipped \$39 million. By 2002, these numbers increased to \$554 million for Quebec and \$442 million for Ontario. Since these goods can be produced from a variety of tree species, including engineered wood made of chips and other wood by-products glued together, BC's abundance of larger, old growth trees is less of an advantage with respect to these products.

BC's siding industry has been hit hard by the softwood lumber dispute

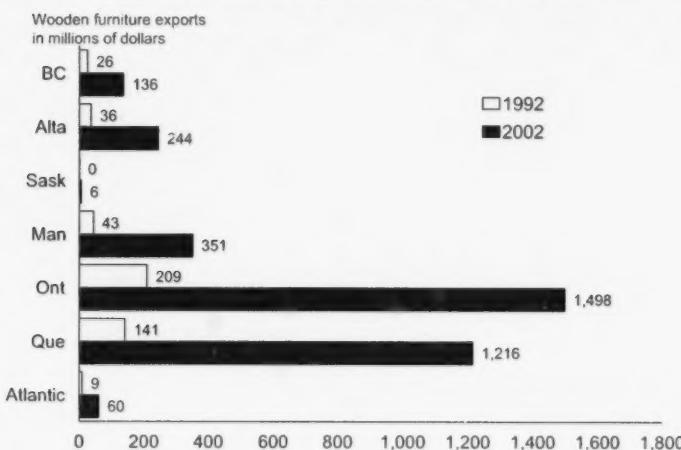
The BC value added wood product mix has changed significantly over the last decade

BC exports of builder's joinery and carpentry of wood expanded rapidly in the nineties, but has since dropped off somewhat

Taking up the slack left by the decline in builder's joinery exports was exports of prefabricated buildings. This product increased its share of value added wood exports from 8% in 1992 to 22% in 2002. Although these products usually have some non-wood components, they are mainly constructed of wood and are therefore considered a value added wood product.

Furniture is another significant value added wood export from BC. In 2002, wood furniture surpassed siding in terms of value of exports. Furniture shipments have increased significantly in the last decade, rising from \$26 million in 1992 (9% of value added wood exports) to \$136 million in 2002 (14%). However, growth in BC has been overshadowed by the phenomenal increase in other provinces, particularly Ontario and Quebec, but also Manitoba and Alberta. For each of these provinces, furniture shipments represent well over half of all value added wood exports in 2002. With most wood furniture manufactured out of hardwood species and the majority of BC lumber being of the softwood variety, perhaps it should come as no surprise that BC is not a more significant producer of wood furniture.

The explosion of furniture exports from Ontario, Quebec, Manitoba and Alberta has overshadowed growth in BC



BC exports of prefabricated buildings have more than doubled in the last decade

BC's exports of wooden furniture have increased significantly over the last decade, but nowhere near as much as in other provinces

Although British Columbia has significantly increased its exports of value added wood products over the last decade, it has not kept pace with other provinces. With the continued friction with the United States regarding shipments of softwood lumber, expansion of value added products may be one way to help the forest industry diversify and reduce its dependence on lumber exports.



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also on the Internet at www.bcstats.gov.bc.ca

BC at a glance . . .

POPULATION (thousands)		% change on one year ago
BC	4,162.5	0.8
Canada	31,559.2	0.8
GDP and INCOME		% change on one year ago
(BC - at market prices)	2002 Prelim.	
Gross Domestic Product (GDP) (\$ millions)	134,365	2.7
GDP (\$ 1997 millions)	126,141	1.8
GDP (\$ 1997 per Capita)	30,459	0.8
Personal Disposable Income (\$ 1997 per Capita)	19,445	-0.2
TRADE (\$ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Jun	2,667	-1.5
Merchandise Exports - Jun	2,584	0.1
Retail Sales - Jun	3,399	0.2
CONSUMER PRICE INDEX		12-month avg % change
(all items - 1992=100)	Jul '03	
BC	120.5	2.6
Canada	122.2	3.3
LABOUR FORCE (thousands)		% change on prev. month
(seasonally adjusted)	Jul '03	
Labour Force - BC	2,206	0.8
Employed - BC	2,016	0.5
Unemployed - BC	190	4.8
	Jun '03	
Unemployment Rate - BC (percent)	8.6	8.3
Unemployment Rate - Canada (percent)	7.8	7.7
INTEREST RATES (percent)		Aug 20/03 Aug 21/02
Prime Business Rate	4.75	4.50
Conventional Mortgages - 1 year	4.55	5.35
- 5 year	6.55	6.80
US/CANADA EXCHANGE RATE		Aug 20/03 Aug 21/02
(avg. noon spot rate) Cdn \$	1.4024	1.5587
US \$ (reciprocal of the closing rate)	0.7124	0.6420
AVERAGE WEEKLY WAGE RATE		% change on one year ago
(industrial aggregate - dollars)	Jul '03	
BC	687.34	3.6
Canada	662.42	2.1
SOURCES:		
Population, Gross Domestic Product, Trade,	} Statistics Prices, Labour Force, Wage Rate	
Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics		
For latest Weekly Financial Statistics see www.bankofcanada.ca		

British Columbia Provincial Economic Multipliers and How to Use Them

Author: Garry Horne, April 2003

37 pages

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- Consumer Price Index, July 2003
- Earnings & Employment Trends, July 2003
- Exports, June 2003

Next week

- Business Indicators, August 2003
- Current Statistics, August 2003

